UNITED NATIONS
ECONOMIC AND SOCIAL COUNCIL

E

Distr.
LIMITED

E/ECA/TRADE/86
25 June 1987

Original: ENGLISH

ECONOMIC COMMISSION FOR AFRICA

African Regional Experts Group Meeting
on Domestic and Intra-African Trade

Addis Ababa, Ethiopia, 9-13 November 1987

UNRECORDED TRANSBORDER TRADE BETWEEN AFRICAN COUNTRIES

A PRELIMINARY NOTE BY THE SECRETARIAT

I. BACKGROUND

1. It is a fact of history that the existing territorial boundaries between African countries are the result of the "Scramble for Africa" among the European nations in the 19th century. These boundaries are artificial and reflect the political influence of the colonial powers in Africa at that time rather than a natural physical separation based on ethnic considerations among the African peoples. In many instances, boundaries cut across ethnic groups which share the same culture, traditions and social systems. It is therefore not surprising that even to-day, more than twenty-five years after the achievement of independence by most African countries, many African people continue to maintain natural interdependence among themselves, in spite of the political boundaries and different economic systems they may have been subjected to.

2. Trade among them is one essential ingredient of this natural interdependence and takes place across but regardless of official national boundaries. Even though there are a number of [illegible], natural barriers such as lakes, rivers, mountains and deserts constitute recognized boundaries between African countries, some special features of African economies transcend such restrictions and, for economic reasons, trade transactions take place illegally across the official borders. Border Trade 1/ occurs because of a number of economic social and environmental factors which are described later in this paper. For the present, it is important to stress that this trade is considered illegal in the sense that it is distinct from trade officially recorded at border posts. Although it cannot be accurately assessed, it is large enough to be of concern to individual governments for a variety of reasons. It is this concern which prompted the present attempt to review the underlying causes of border trade, the issues involved and their possible impact on the economies of individual countries.

3. Many African countries, especially the land-locked ones, share common boundaries with a large number of countries. This gives rise to problems of border trade which no matter how it is described, is an activity which is difficult to quantify in terms of volume and value. It is however not a totally unknown factor since the goods involved are seen on the markets and can therefore be determined. The persons involved in such trade are sometimes apprehended and thus provide information on the nature of the trade. The present study is based on such information which was gathered in the course of missions to a few selected countries in Eastern and Southern Africa. Visits were made to some border areas and extensive discussions were held with customs and border officials, government trade development officers and ministry officials dealing with trade matters which have highlighted the issues involved in border trade.

4. The products involved in border trade obviously differ from one country to another depending on supply and demand conditions. However, it was noted that the underlying causes of the trade and the methods used exhibit similar features which can lead to a set of general conclusions. Given the limited sources of data, the analysis contained in the study will be partly extrapolated from the information available and partly from theoretical concepts which need to be

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1/ Sometimes such trade is variously called illegal, clandestine, unrecorded, silent, parallel, transborder, smuggling or simply the black market.

verified on the basis of a wider selection of countries. The interpretation of the data and the findings of the study are therefore presented in a preliminary analysis which, it is hoped, may serve as a useful basis for action by member countries.

5. Statistics of trade, among African countries, as officially recorded over the years, indicate that it constitutes a very small percentage of Africa's total trade. In fact, since the 1970s, the value of intra-African trade has declined steadily from 6.1 per cent to around 4.8 per cent in 1985, highlighting the fact that Africa's total external trade continues to be oriented externally, essentially towards the industrialized countries. These statistics however do not provide an accurate picture in terms of trade, types of goods, quantity, value and direction, since a very significant volume of trade takes place unofficially across border areas between citizens of neighbouring countries. Because this trade is not documented, it distorts the real trading position of the African countries and has different impacts on their economies.

6. As mentioned before, border trade has been described by various epithets, but, the end result is the transfer of goods from one country to another without passing through official channels. Such transactions are unrecorded and have a number of economic implications for member countries which will be examined later. The immediate questions that come to mind are: who are the people involved in border trade and why does such trade take place? The answers to these questions are varied and complex ranging from differences in levels of economics development, currency disalignments and political factors. Some even argue that border trade provides a service which is otherwise officially forbidden or inadequately supplied by the authorities. In any event, the transactions are illegal and involve the transfer of goods that may restricted for security and health reasons. Profit motive is a major impetus to border trade because it is understood that the rewards can sometimes be so great that those involved are prepared to take high risks even at the cost of their lives.

(i) Smuggling

7. Border trade takes many forms. Smuggling is the commonest of all. Smuggling must be categorized as the major type of illegal transactions taking place across the border areas. In most cases, it is reported that those involved operate on an organised basis and as a business enterprise. 2/ They purchase the goods in sufficiently large quantities and employ porters to carry the goods on their head, in small quantities or by mules across unpatrolled territory, generally at night time. Goods are also transported by canoes or boats across rivers and lakes or along the coastline sometimes over considerable distances.

2/ O.J. IGUE in his papers on clandestine trade between Nigeria and Benin dispels any doubt that smuggling by canoe or head load might be a small scale operation. He reports that armed bands of 30 men or 50 each carrying up to 50 kg outmatch armed customs officials. Smugglers trade routes in the Nigeria-Benin border also vastly outnumber the official border posts: over a stretch of 100 km, IGUE identified over 50 smugglers routes to 20 official Benin and Nigerian border posts (Berg Report, Op. Cit.).

8. The smuggling of goods is operated with tacit understanding of suppliers and buyers on both sides of the border as to the type and quantity of the goods and the methods of payment. The fact that the border areas in two neighbour countries are often inhabited by people of the same ethnic origin or even same family members considerably facilitates smuggling. Enquiries have revealed that the currencies of the two border countries serve as the medium of exchange at exchange rates which are determined by demand and supply of these currencies. These rates bear no relation to the official exchange rate and do not necessarily reflect their real purchasing power.

9. It must be mentioned also that the smuggling of currency is an integral element of transborder trade. Generally speaking, because of disparity in the powers of different currencies, currency dealers operate openly in the border areas and very often do so at official border posts. In most cases, however, currency exchanges take place in the balck market. The dealer's exchange rate is flexible and, on market days when consumer goods are traded, it varies at different point in time.

10. Smuggling, in a number of cases, involves the movement of herds of cattle, sheep, goats or camels across borders. Cattle rustling and smuggling to neighbouring countries occasionally takes place in some border areas and can be a smooth operation where there are people of the same ethnic group on both sides of the border. 3/ Such transactions constitute a serious drain on the resources of the countries concerned and, at the losing end, countries such as Zambia, Uganda, Somalia, Ethiopia, Kenya, Botswana and Tanzania are deprived of an important source of foreign exchange earnings.

(ii) Falsification of Documentation

11. These practices take two forms: the falsification and the forgery of documents. The falsification of documents is more widely practised and involves the presentation of false information in terms of quantities, value, type of goods and quality of the goods being exported or imported through official channels. The true nature of the goods is hidden as it is not easy to check carefully all packages, crates and other bulk purchases. Such types of unrecorded trade, when carried out on a large scale, especially if connivance with customs officials is involved can be very significant in value and involve considerable losses in revenue to the government. Falsification of documents may also be done through deliberate alteration of figures, omissions and computational errors in official trade documentation such as invoices, customs declaration, bills of lading, insurance documents.

12. The forgery of documents is an even more serious malpractice in that it is organised and can be very difficult to detect. Completely new forged documentation can replace the originals, with the information distorted as regards the quantity, value or even the nature of the goods. Here, even uncorrupted officials may find it difficult to detect. The transportation of goods in containers may tend to facilitate this type of fraud, especially when there is congestion at ports or other points of entry into a particular country, involving extra payments to officials to speed up the processing. In some cases, this is carried out by highly placed people in social and political standing and investigations may therefore be difficult to complete.

3/ It is however reported that in some areas, nomadic pastoralists cross official borders at will to sell their animals, completely unaware that they are indulging in illegal transactions.

(iii) Theft

13. This type of unrecorded trade relates to the transfer of used vehicle which may have been stolen miles away from the border posts where they cross from one country to another. False documentation may also be used or the vehicles cross the border on temporary permits but never reenter the country. In some cases, the stolen vehicles pass across unmarked frontiers and are sold with completely false documentation. Another, particularly important aspect of unrecorded trade is the smuggling of expensive consumer goods such as televisions, radios and other electronic equipments, vehicle spare parts etc. which are paid for in foreign exchange and sold across border in local currency.

(iv) Traditonal Market Places

14. Another type of border trade relates to traditional periodic markets which are held in given locations once or twice weekly. Generally speaking, in all border villages there are periodic markets which are attended by people on both sides of the border either because they belong to the same ethnic or tribal groups or because of the problems of access to supply of consumer goods and basic commodities. Since the individual purchases are not large, a certain amount is authorized to be brought into the country exempt of duty. No foreign exchange transactions take place as the purchases are in the local currency at rates which are determined at the local level. Although brought in small quantities, such goods find their way into shops in the border areas and are accumulated for resale either in the border areas themselves or further afield in the towns. In any event, the trade is unrecorded except for a few items. A prime example of such control is in Uganda, in particular in the border areas with Kenya where traders accumulate the goods in small quantities and pay duty at the customs post after the goods have actually entered the country.

15. Some goods, in particular food are available for official trade in border areas. Such trade attracts duties which are normally paid in local currency while the imported goods themselves are paid for in the currency of the exporting country. In some areas, trade transactions are carried out in foreign exchange, especially the American dollar or the pound sterling and the duty is paid in the foreign currency. There is no official documentation involved and assessment of duty is based on the verbal declaration of the traders as to the value of the goods they have exported.

(v) Transit Trade

16. Information gathered on border trade in some countries indicates that certain goods are smuggled into a country but not for sale in that country but are transshipped and sold at other border areas or smuggled out of the country to earn foreign exchange. Specific examples are second hand made clothes from Rwanda sold in the border areas with Uganda and Kenya while it appears that gold is smuggled out of Zaire and reaches markets as far distant as the Middle East. Coffee is another commodity which is smuggled out of one country into another to be reexported to foreign destinations for foreign exchange. 4/

4/ A lot of smuggling takes place between Kenya and Uganda in coffee which is exported overseas involving well placed operators. It is argued by some observers that such trade helps to earn foreign exchange for the import of consumer goods and consumer durables for which no foreign exchange is available from official sources. It is further believed that, if strict control of such trade is maintained in some countries, there would be an acute shortage of a wide range of consumer goods.

III. TYPES OF PRODUCTS IN BORDER TRADE

17. From the preceding paragraphs it is possible to observe that a large number of different products enter border trade. The spectrum of products traded in border areas reflects, in general, the demand for basic products and consumer goods which are either not available on the local market or are comparatively more expensive than across the border. While the profit motive is the major factor underlying border trade, it is noted that traders generally respond to a situation characterized by the need to satisfy people's basic needs. It is therefore not surprising that food products such as cooking oil, flour, sugar, salt and beverages figure prominently in the list of goods traded. Some countries have surplus food production such as wheat, corn, millet, sorghum, potatoes, beans, peas, bananas, cassava, groundnut, fruits and fish. Such products are comparatively easy to smuggle out when export is officially banned or the issue of export licences is an administratively cumbersome procedure. However, in a number of cases, such goods are traded officially by government parastatals although a considerable amount crosses the borders as unrecorded trade.

18. General consumer goods constitute a large group of products which are traded unofficially in response to forces of demand and supply within a particular country as a whole rather than specifically in the border areas although some of the products such as, beer, soap, whisky, toothpaste, matches, plastic ware, are for immediate consumption in these areas. Other products such as electronic equipment, including television sets, radios, video cassette recorders, cosmetics, ready made clothes, shoes, vehicle spare parts, tyres, power generators and construction materials enter the list of border trade or smuggling. It is noted that, as a direct consequence, some border towns have flourished and become quite active centres.

19. A third category of products constitutes the basis for organized smuggling on a fairly large scale and generally involves substantial capital outlay by the persons concerned. In the Eastern and Southern African context, such products are coffee, gold, hides and skins, timber, tin, wolfram and precious stones although they are also officially exported. The transactions in some of these products are carried out with convertible foreign currency as the medium of exchange.

IV. FACTORS RESPONSIBLE FOR SMUGGLING

20. Initially, trading activities in border areas evolved in response to supply and demand forces and were confined to goods locally available or produced for the immediate consumption of the people in these areas. The volume and value of such trade was not very significant and therefore the need for strict control was not felt by the authorities, particularly since it was not easy to police the national borders effectively. This therefore constitutes the origin of unrecorded border trade. In time, the scope of such trade expanded to include imported manufactured goods for consumption not only in the border areas but further afield in the urban areas. More significantly, the trade now embraces products which are imported with the main objective of reexporting them for commercial profit making. Several factors are identified as being responsible for border trade.

(a) Profit motive

21. Several reasons have been identified to explain the unrecorded nature of border trade but the profit motive stands out as the major one. Businessmen take advantage of the fact that many African governments are unable to police all their borders effectively. This enables them to smuggle goods in and out of the country thereby avoiding paying duties. In many cases, tax evasion makes all the difference to the viability of the transaction especially when considered in conjunction with the other complications of using official trading channels.

(b) Administrative procedures

22. Trade procedures in many African countries require an import or export licence to be obtained beforehand. Import licencing generally implies clearance from the Ministry of Finance for foreign exchange allocation. Such procedures are often very cumbersome and costly since the licence has to be obtained from the capital city, covering long distantes from the trading area. In the case of exports, some countries require that the duty be paid in advance and in convertible currency. Even where no foreign exchange control is exercised, the obtaining of an export licence may involve spending several days in the capital city to complete the documentation for one single trade transaction. Even if the trader wants to keep within the law, such difficulties encourage him to resort to smuggling.

(c) Tariff and other barriers

23. Intra-African tariffs and customs duties are generally very high. The argument is that customs and excise duties constitute a major source of revenue for African countries and such duties can be quite heavy especially when governments want to use tariffs as a means of controlling the level of imports in order to manage their limited foreign exchange resources. High tariff walls on imports are also used to protect infant industries against external competition from the industrialized countries and to discourage the imports of certain goods while taxes on exports are essentially to raise government revenue. Therefore, in the absence of strict border controls and to avoid paying such taxes, traders are able to resort to smuggling which makes their business highly lucrative even if they run the risk of being caught.

24. Other non-tariff barriers such as security or health regulations, quotas and licencing on the import or export of certain goods undoubtedly contribute to the volume of smuggling. In spite of the restrictions imposed, some consumers are prepared to pay high prices for certain luxury items and therefore provide the incentive for smugglers to bring in the goods. Banned export items suffer the same fate as the goods fetch an even higher price across the border.

(d) Exchange rate and currency misalignment

25. Differences in exchange parities also engender smuggling especially if one currency is strong and readily convertible. Most trade transactions in border areas are settled in the currencies of the two countries at the particular border at exchange rates which are totally out of alignment with their official exchange rates. This occurs in spite of the existence of currency regulations which the member countries are unable to enforce. In most cases, trafficking in currency is often done openly and the exchange rate reflects the elasticities of supply and demand of both the currencies and the goods traded as well as their price

elasticity and results in what is known as the "black market" rate. In some instances, the "black market" rate can be as high as ten times the official exchange rate thereby reflecting the unrealistic level at which the official rate has been fixed in terms of its purchasing power.5/

26. Weak or overvalued currencies provide an incentive for traders in the weak currency country to earn the stronger currency of the neighbour country thereby increasing their purchasing power. It is equally attractive for the strong currency trader to earn the weak currency at heavily discounted rate which makes the product of the weak currency country quite cheap. This constitute a strong incentive for traders to indulge in smuggling. 6/

27. Strict foreign exchange control and the shortage of convertible currencies are also among the major reasons for traders to deal in local currencies which are themselves traded in a similar way as goods. Unofficial currency dealers make their profit by exchanging currency needed at the border. Although this is illegal, the services provided make it both feasible and easy for traders to carry on their activity. The service is all the more significant when the trade involves goods which are for reexport. The trader makes considerable savings both on import duty and export taxes.

(e) Price differentials

28. The differences in government pricing and fiscal policies sometimes causes wide price differentials for similar goods on both sides of the border. This leads to an automatic movement of goods as traders perceive the opportunity to earn profits. The price differences are also associated with the high cost of transport to get the product to the border area of one country as well as trade restrictions. Such import restrictions of certain goods for which consumers have developed a taste encour ge border trade when they are available on the other side of the border. The price differential in such cases is linked with the elasticity of demand for the product rather than its intrinsic cost. In some cases, the inferior quality of locally produced goods causes a demand for the same but imported product. The high prices consumers are prepared to pay provide the necessary incentive for trader to smuggle the goods to meet the demand.

29. Price differential also arises in particular with respect to agricultural products. Farmers are usually expected to sell their produce to government Grain Marketing Boards which fix the prices for cash crops. These prices are often much lower than international prices. When the prices across the border are higher,

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5/ Black market rates vary over time and in relation to the economic situation in the country. Until the recent devaluation of the Ugandan Shilling, the official exchange rate was 1400 Shs to the dollar while the black market rate was between 12000 and 14000 Shs.

6/ As an example, the black market rate of the Uganda shilling before its revaluation in May 1987 against the currencies of the countries of Kenya, Rwanda and Zaire were as follows:

100 K Shs = 70 to 80 000 Uganda Shs.
1000 Rwanda Franc = 130 000 Uganda Shs.
1 Zaire Nabuti = 100 - 140 Uganda Shs.

there is every incentive to smuggle the goods to the other side. 7/ Delays in payment to producers by the marketing authority also encourage the clandestine export of the products.

30. The case of Uganda presents a typical example of agricultural commodities being smuggled to neighbour countries. On the border with Zaire, coffee is smuggled in large quantities while on the border with Rwanda, it is believed that important amounts of sorghum and potatoes are traded with the Rwandese. Price differential for groundnut between Nigeria and Niger during the period 1976-1982 (221 CFA francs in Nigeria compared with 85 CFA in Niger) was reported as having caused heavy smuggling of theproduct from Niger into Nigeria. 7/

(f) Ethnic affiliation

31. The proximity of markets in many border areas of African countries provide an incentive, not only for traders to operate, but also ordinary individuals, for whom it is easy to cross the border to do their shopping. It is difficult to determine the volume of such trade and even more so to control it. This trade is usually reinforced by the ethnic affiliation of people living in the border areas, who in the course of their normal social, religious and cultural contacts almost certainly have the same consumption habits which give rise to commercial relations among them.

32. As mentioned earlier in the introduction to this study, the boundaries established by the colonizing powers, in many instances cut across population belonging to the same ethnic group. Even to-day, it is noted that families are split on both sides of the border. 8/ Examples of divided peoples, to name but a few, are the Bakonjo people in the South-West border of Uganda and Zaire, the Bakiga people at the border between Rwanda and Uganda; the Itesot on the border between Kenya and Uganda and the Masais who overlap the boundaries of Kenya and Tanzania; and the Shona people between Zimbabwe and Mozambique and the Nyanja (Chewa) between Zambia and Malawi. The border between Nigeria and the Benin Republic and Ghana and Togo provide good examples of a single ethnic population overlapping common boundaries: they include the inhabitants of Idiroko in Nigeria and Igholo in Benin. The Badagry border in the Benin Republic exhibits the same feature. 9/ In such cases, trade transactions across the border are virtually impossible to control while the inhabitants consider their trade relations as perfectly normal and are not even aware that these are harmful to their country.

(g) General shortages and non-availability of goods

33. Shortage of essential commodities constitute an important factor in the illegal movement of goods across borders. The shortages are caused either because of smuggling of the goods to a neighbour country or because of low levels of

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7/ See Monetary and payments implications of border trade in Africa, Document E/ECA/TRADE/15 August 1984. Other examples of this are the smuggling of groundnuts between Gambia and Senegal and of general merchandize between South Africa and Zimbabwe and between Zimbabwe and Zambia.

8/ Cases even exist where a main road constitutes the boundary between two countries thus splitting the same people into two different nationalities. Typical examples are the border between Uganda and Kenya along the stretch between Busia and Malaba in Uganda and Aflao on the border between Ghana and Togo.

9/ See Monetary and payments implications of border trade in Africa, op.cit.

productivity in one country. In Zambia, recently, there was a call to ban the movement of livestock into Zaire because of persistent smuggling. Other essentials such as salt and chickens were also brought into the north-western province from as far as Monze in the Southern province for sale to Zaireans. 10/ Businessmen charged exorbitant prices for such commodities when shortages developed as a result of the smuggling. Non availability of goods in rural border areas is often due to poor internal distribution as much as to actual shortage in the country. For instance it was reported in Zambia that shops in Lukanga in Kabwe Rural district had to close because of lack of essential commodities such as soap, candles, cooking oil, sugar and salt. 11/ Such shortage are often met by illegal imports from neighbouring countries.

V. ECONOMIC IMPACTS OF ILLEGAL CROSS TRADE

34. Most governments which are affected by illegal border trade have expressed concern about the nature of the trade and its impact on their economies. Although this impact has not been quantified in the absence of data on the volume of such trade, the countries believe, from guesses and estimates, that their economies are seriously affected in several ways. This Section will examine the different aspects of the economic impact of illegal trade.

(a) Loss of revenue

35. Goods which are smuggled obviously escape taxation both as imports and exports, resulting in loss of revenue to the country concerned. Since most African countries derive a good proportion of their revenue from customs and excise duties, smuggling on a large scale to or from the country can have a serious impact on government finances. For most countries, the loss of revenue therefore constitutes a major drawback with serious implications for their effectiveness in the management of the economy.

36. Various methods have been used by some countries to estimate the volume and value of unrecorded border trade. In Mali, data on production, domestic consumption and recorded exports were used to determine the volume of cattle, goat and sheep which were illegally sold across the border. For the years 1980 and 1981, the figure was estimated at some 390,000 head of cattle for a loss of nearly 4 billion Malian francs in revenue at the rate of 10000 Malian Francs as export duty per head of cattle. Similarly some 550,000 goats and sheep, went unrecorded for a revenue loss of 1,375 billion Malian francs. Estimates of the movement of currencies in Burkina Faso during the years 1977 to 1979 showed unrecorded inputs of around 9,798 and 9.33 billion CFA francs respectively and unrecorded exports of 4.6, 5.7 and 6.4 billion CFA francs respectively. Calculated on the basis of the import duties and export taxes prevailing at the time, revenue losses were around 4,7[illegible] million CFA for the three years. 12/ These examples reflect a situation which is fairly typical in many African countries.

10/ See the Sunday Times of Zambia dated 5 March 1987

11/ Ibid.

12/ See Document E/ECA/TRADE/15, op.cit.

(b) Foreign exchange leakages

37. A second major aspect of the smuggling of goods is the "leakage" on the resources of the exporting country. This occurs when a substantial proportion of primary products is smuggled abroad either because of a price differential compared with the neighbour country or because of an inefficient marketing system which leads to delays in purchasing the product from the farmer or in settling payments. The loss to the country is then not only in terms of revenue losses but also in foreign exchange since the goods smuggled are generally paid for in the local currency. In some countries, loss of foreign currency is also incurred through the smuggling of goods out of the country which were originally imported into the country and paid for in foreign exchange through official channels. Highly valued goods such as motor vehicles, television and video regarding sets, radios, gold and precious metals often find themselves illegally across national frontiers.

(c) Price distortions

38. The exchange rate for smuggling purposes varies at the different borders resulting in price distortions for similar goods in the same country. For instance, imported goods may be cheaper at border areas than in the urban centres in the interior of the country. The stability of the general price level can be affected if the supply and demand for goods are factors which are exogenous to the economy of the country. Any attempts to introduce an effective pricing policy may be frustrated if smuggling takes place on a large scale.

39. The negative aspect relates to two factors: supply to the internal market and unfair competition when prices across the border are attractive. The smuggling of goods to the external market may lead to a shortage of the goods in question in the internal market. 13/ This situation has even more serious repercussions when the "exporting" country does not even produce adequately to satisfy internal demand. 14/ It has been noted that such a problem relates in particular to essential commodities such as oil, sugar and petrol. Unfair competition arises from artificially lower prices since the "imported" product is not subjected to taxation and can therefore compete against the locally produced goods. The industry will suffer from low demand for its product while the "exporting" country is taking advantage to expand its industrial base. This, in a sense, constitutes a form of dumping with all its negative implication for the receiving country.

13/ For example, the Sunday Times of Zambia of 8 March 1987 reported that essential goods, including mealie meal from Solwezi and other parts of the province were being smuggled out of the country by greedy businessmen who charged exorbitant prices because they took advantage of the Zairean market.

14/ The mission to Kenya was informed that large quantities of sugar were being sold at the border area with Uganda when sugar had to be imported to supplement domestic production in order to satisfy internal demand.

VI. MEASURES TO CONTROL BORDER TRADE

40. It is believed that all member countries affected by illegal transborder trade have attempted to initiate measures to achieve some control of such trade. Some of the measure outlined in this section have been tried with varying degrees of success. However, a number of factors militate against the successful application of control measures.

(a) Effective surveillance of borders

41. Most African countries have extensive boundaries extending over thousands of kilometres with many other countries, as in the case of Zaire with nine borders. The active policing of such borders would require a considerable amount of human and material resources which the average African country is not in a position to afford. A review of the situation in some border areas revealed that police control is confined to official border posts to check the movement of persons and traffic. However, a case can be made to increase the resources for police control at least in those areas where smuggling takes place freely. On the other hand, it may be argued that controlling one area will only drive the smugglers to find alternative routes. Since adequate resources would never be available to police the entire perimeter of the country, governments obviously consider it unproductive to spend resources for limited action although it is reported that, occasionally, border police mount special operations to crack down on smuggling.

(b) Supervision of border post staff

42. Supervision of border post staff on a regular basis is another form of controlling illegal transborder trade. Control carried out by officials at border posts is based to a large extent on the technical competence and integrity of the officials concerned. These officials are assigned to remote parts of the country which are sometimes not easily accessible from the capital city where overall control is excercised by concerned ministries. It is therefore important to ensure that the officials are fully trained and have constant guidance and supervision from their Headquarters. Moreover, in order to avoid the temptation of bribery, their terms of employment should be made more attractive with adequate provision to ensure them a fair standard of living.

(c) Prosecution of offenders

43. From a review of the situation in border areas of some African countries, it would appear that very few smugglers are apprehended and still fewer are brought before the courts. Legal procedures are generally very cumbersome and protracted and for that reason, any officer of the law may prefer not to pursue a case to its final conclusion. It is believed that the threat of prosecution is not a very effective deterrent against illegal trade practices.

(d) Review of trade procedures and practices

44. In the course of investigation on border trade problems, complex trade procedures, documentation and difficulties in obtaining import or export licences have been cited as reasons for illegal trade. The main difficulties appear to be the inability of semi-literate traders to fill in complicated application forms, the inordinate delay in getting them processed, the cost of obtaining appropriate documentation from capital centres - procedures which have to be repeated each and

every time a transaction is to take place. To overcome such problems, local traders in border areas can be encouraged to pass through officials channels by decentralizing the issue of trade licences to local trade officials, simplifying trade documentation and harmonizing trade practices with those of neighbour countries. It has also been argued that the simplification of administrative procedures would resolve the payment problems which, from the government's point of view, require that settlement be made in convertible currency to increase the foreign exchange resources of the country.

(e) Joint border control

45. Joint bodies such as Joint Border Commissions with neighbour countries already exist in many African countries to review border trade issues and establish mutual arrangements to deal with them. Such agreements however appear to be ineffective as they essentially deal with isolated aspects of border trade problems. Meetings with counterparts across the border on a regular basis can bring positive results within a complete package which includes agreement on the products to be traded, their prices, the exchange rate to be used as well as the level of taxation to be levied on imports and exports. The application of the terms of the agreement must be enforced strictly by officials on both sides of the border if it is intended as a measure to curb smuggling.

(f) Co-operation between customs officials of neighbouring states

46. Co-operation between customs administrations in two countries with a high incidence of smuggling is an important element in controlling illegal trade. It has been reported that border customs officials in one country sometimes close their eyes to smuggling and do not seize goods illegally brought into the country. To the extent this is so, in effect they are actively helping smugglers in their activities. There is therefore a strong case for government action to enforce closer co-operation among the customs officials.

(g) Bilateral trade agreements

47. To improve official trade among neighbour countries as a means of combating smuggling, bilateral trade agreements may be another way of resolving illegal trade. What needs to be done is to identify the goods involved and provide freer trade in such goods. Definite terms and conditions of trade established between neighbour countries would have to be agreed upon between the countries concerned.

(h) Exchange rate and pricing policies

48. The fact that some currencies are traded at levels which sometimes fall to ten times below their official rate, indicates a serious disequilibrium in their purchasing power vis a vis the currency of the neighbour country. A product sold for the equivalent of ten American dollars in country A and the equivalent of one dollar in country B indicates a gross overvaluation of the currency of country A which, in uncontrolled border trade, will lead to an exchange rate for the currency which will approximate to a tenfold devaluation. The above example is not necessarily a typical example but in many cases, the value of some national currencies can depreciate by as much as 200 to 300 per cent. Such currencies require appropriate adjustment to achieve a realistic exchange rate which would remove the incentive to indulge in smuggling.

49. As was stated earlier, pricing policies which create wide disparity with prices prevailing in neighbour countries also constitute a strong incentive for smuggling activity. It is reported that in some areas, price differentials are a major cause for the smuggling of primary commodities, such as coffee and groundnuts as well as food products such as maize, milet, sorghun, cassava, etc. The pricing policy should generally combined with other factors such as better internal collection and distribution of the food crops, more efficient marketing organisations and co-operative bodies, better transport systems and speedy payments to farmers. Improvement in these areas would considerably reduce the volume of smuggling even if it does not put a complete stop to it.

(i) De facto legalization of border trade

50. In many border areas, a de facto situation exists where transtrade between border populations in two neighbour countries already takes place with the tacit agreement of the governments concerned. People are allowed to cross the border and buy small quantities of goods which are brought in duty free, a trade which remains unrecorded. Some countries have established official trading posts where goods are sold to people from the neighbour country and paid for in the local currency at official exchange rates. This is obviously a practice which is encouraged to remove any suspicion on the part of neighbour countries.

(j) Harmonization of tariffs

51. Adjustment in tariff rates are an important policy instrument to deal with illegal transborder trade. Some countries impose heavy duties on certain categories of products, in particular luxury articles such as electronics, alcoholic beverages, jewellery, perfume, etc. to discourage their imports in order to save scarce foreign exchange. Some other consumer goods are also subjected to high tariffs in order to protect local industries. The smuggling of such goods is essentially to avoid these duties in addition to avoidance of cumbersome administrative procedures and the need to obtain foreign exchange clearance. Agreements on tariff reduction and harmonization between neighbour countries where heavy trafficking in such goods takes place can lead to a reduction in such activity and promote normal trade.

(k) Production and supply of basic goods

52. The shortages on the local market of consumer goods and essential commodities is one of the major reasons for illegal trade. It is argued that smuggling such goods in this case, helps to satisfy a persistent demand which cannot be met through official action. The smuggling in of such goods can therefore be counteracted by appropriate government policies to increase production and ensure a regular and constant supply.

VII. SUMMARY OF CONCLUSIONS AND RECOMMENDATIONS

53. Illegal transborder trade, as has been shown in this analysis, takes different forms and covers all types of goods from primary commodities to general consumer goods and luxury products. The reasons for this trade have been examined in some details, although the analysis has not looked at all the ramifications of the problem. Most governments do not accept that their economies should be subjected to the effects of illegal trade, positive or negative, large or small. In this analysis, it has been noted that smuggling fulfills an important economic function in a country in response to factors which are endogenous to the economic structure of the given country. Economic policies and institutions are largely responsible for the existence and persistence of illegal trade in spite of government measures to control it. It is even argued that some countries tacitly accept illegal trade as a means of satisfying internal demand, principally for consumer goods and essential commodities including foodstuffs, raw materials and even durable goods such as cars, spare parts, bicycles, tyres, etc. which contribute to the efficiency of the economy. To eradicate illegal trade, measures must be taken to meet the essential requirements of the population.

54. Loss of revenue and foreign exchange leakages, distortion within the economy due to currency dealing in a parallel market have interrelated causes and effects. Currencies of neighbour countries used in transborder trade, although officially not convertible, are to all intents and purposes, convertible since they are used as much for imports and for exports. The point at issue is the exchange rate which tends to be brought to a more realistic level by the action of parallel markets. The major issues to be tackled are therefore the in adequate supply of food products, general consumer goods and essential commodities, appropriate investments in the productive sectors, establishment of realistic exchange rate removal of wide price differential, reform of inefficient tax policies and trade and customs procedures, the adoption of appropriate foreign exchange regulation and import policies and realistic pricing policies. Monetary and fiscal measures are also necessary to make adjustments within the economy especially to control inflation and misalignment of the currency with those of neighbour countries, in order to maintain the real purchasing power. Overvalued currency, as we have noted, is a root cause of currency dealing and smuggling.

55. A major course of action, in dealing with the root problems of transborder trade, is to improve the efficiency of investment and increase production of consumer goods. Incentives such as better access to foreign exchange for importing capital goods and spare parts, lower rate of taxation and other financial incentives such as cheaper loans and easier repayment terms, given to manufacturers and importers would be to improve investment, expand production and remove excess capacity in their production and in the long run drastically reduce the incidence of smuggling.

56. The conclusion drawn from this analysis is that in the absence of punitive tariff and trade restrictions, trade between countries would take place freely and traders would not need to smuggle goods across national borders. The higher the tariffs and the more severe the restrictions, the higher will be the incentive to resort to smuggling. Such obstacles therefore do not necessarily put a complete

57. In the light of the above conditions, the following recommendations may assist member countries in taking appropriate action to deal with border trade problems: (a) In order to curtail illegal transborder trade, governments should promote investment and provide incentives to increase the production of food and essential commodities to satisfy internal demand; (b) Governments should also adopt appropriate pricing policies for agricultural and mineral products to encourage producers to maintain production and sell through official marketing channels; (c) Marketing boards and co-operative systems should be streamlined and made more efficient in the collection of goods and payment to producers; (d) Transport network and storage facilities should be improved to facilitate the internal management of agricultural production; (e) Measures should be taken to remove wide price differentials with neighbour countries in the pricing of food, essential commodities as well as luxury consumer goods; (f) The level of import duties and export taxes should be adjusted so as to remove tax evasion as an incentive to smuggling. Where feasible, tariff and customs rules and regulations should be harmonized with those of neighbour countries; (g) Decentralization of the trade licencing system to border areas and encourage traders to use official trade channels; (h) Where possible, liberalize foreign exchange allocations and control to allow imports of essential goods; (i) Regular reviews of official exchange rates with currencies of neighbour countries and institute a system of settlement of trade transactions in these currencies; (j) Where the currency of the country is unstable, a system of dual exchange rates could be considered to level off the supply and demand of hard currency; (k) Customs administration should be improved by providing adequate incentives to customs officials to carry out their functions efficiently and effectively.